April 16, 2013

[SENT TO ALL G-20 FINANCE MINISTERS]

Re: Opposition to the EU's Proposed FTT

On behalf of the Australian Financial Markets Association (AFMA), Global Financial Markets Association (GFMA), Investment Industry Association of Canada (IIAC), Japan Securities Dealers Association (JSDA), and the Korea Financial Investment Association (KOFIA), we write to express strong opposition to the EU's proposed financial transaction tax ("FTT"). The FTT would have unprecedented extraterritorial impacts, contrary to G20 principles, and, as even the European Commission estimates, will harm economic growth at a time of significant economic uncertainty. We respectfully ask you, the G20 finance ministers, to express your opposition to this measure.

The proposed FTT would apply to transactions well beyond the eleven EU member states (EU11) that have agreed to adopt it. In particular, it would apply to all transactions where: (i) either the buyer or seller is resident in an EU11 country; (ii) the security was issued in an EU11 country; or (iii) an EU11 financial institution, or any of its foreign branches, is involved in the transaction. For example, the FTT would apply to the sale of corporate bonds of a French company by a Japanese bank to a Canadian bank through a US broker-dealer.

The FTT conflicts with repeated calls by the G20 to avoid measures exhibiting extraterritorial effects. The Communiqué issued after the February 16, 2013 meeting of G20 finance ministers states, "We commit to monitor and minimize the negative spillovers on other countries of policies implemented for domestic purposes." The proposed FTT is inconsistent with this goal, as well as with existing norms of international tax law.

The FTT will increase the cost of equity and debt financing for both governments and corporates, increase the cost of hedging transactions undertaken in the real economy in order to manage risk, and create a further headwind to the global economic recovery. It would apply to a broad range of transactions, including repurchase transactions and stock loans, thereby multiplying the adverse effects on the global economy. It does not include an exemption for market-making or inter-affiliate transactions, and covers not only equities, but also debt securities (such as government bonds) and derivatives.

Studies by a number of groups have quantified the FTT's harmful effects. The International Capital Market Association, for example, estimates that the FTT would cause the short-term European repo market to contract by at least 66%, causing capital flight that would decimate bank funding within the EU11 states, and thus lending to the real economy[1]. London Economics

[1] "Collateral damage: the impact of the Financial Transaction Tax on the European repo market and its consequences for the financial markets and the real economy," *International Capital Market Association,* April 2013

calculated that the increased cost of capital for corporates would lead to a 3.6% drop in business investment and a 1% reduction in GDP in the eleven participating countries. The European Commission itself has predicted a 75% plunge in derivatives trading volumes and a 15% drop in cash trading.

Global markets remain fragile, with many economies experiencing historic levels of unemployment and unusually slow recoveries. Now is not the time to experiment with policies that will fragment markets, increase market volatility, harm savings, and impede growth.

While every state has the right to impose taxes in its territory, this tax would apply extraterritorially to a vast number of transactions and parties outside of the participating countries, creating harmful spillover effects on the global economy. As such, we respectfully urge the G20 finance ministers to oppose the proposed EU FTT.

Sincerely,

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C: G20 Finance Ministers